

Business profile of sir terry leahy



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Any alteration in the senior management of a company is a significant experience in the life of that company. This level of executive leadership often headed by the CEO, is inevitably crucial to the overall performance of the business. The ability, preferences, and ultimate decisions of incumbent leaders of these establishments affect businesses through projects or initiatives undertaken, financial policies, and the corporate culture. Thus, contingent upon the variability of these attributes amongst those chief executives and the impact of their resulting decisions, changes at this hierarchy can negatively or positively alter the course of the company as well as its performance.

Therefore, this paper investigates potentially important consequences of Tesco's CEO Sir Terry Leahy's resignation in June 2010. It shall examine the impact of this announcement on the company's equity performance in the

stock market, staff morale and anticipate the challenges of the subsequent administration. In this investigation, the paper shall also briefly reflect on Sir Terry's leadership style and the effect it had on his administration.

PROFILE OF SIR TERRY LEAHY

In addressing the impact of Sir Terry's resignation from Tesco, let us start by reviewing his tenure in leadership 1997 – 2010. Prior to his ascendance, Sir Terry upon graduating from the University of Manchester Institute of Science and Technology (UMIST) in 1979 joined the retail chain as a marketing executive. It however important to note at this point that; he previously worked part time for the supermarket as a shelf stacker whilst he was attending university. In spite of his humble beginning, thirteen years later, Sir Terry was appointed to Tesco's board of directors in 1992 (Marketing Manager in 1981, Marketing Director 1984 -1986, Commercial Director 1986), and in 1997 he attained the position of CEO as a 40yrs old. A remarkable achievement in his generation.

Under his stewardship Tesco UK market increased to 24% by 2004 making it the market leader. At this point it was estimated that at least one in every eight pounds spent with a UK retailer ended up in Tesco's coffers (BBC Archives). Sir Terry has metamorphosed this supermarket into a retail giant with dramatic expansion into new markets, both geographically and in terms of products and segments. Tesco's international expansion has given it a presence in 11 markets in Ireland, Eastern Europe and Asia. The company branched out into new markets such as home telephony and insurance or finance deals, to name but a few.

Sir Terry's many initiatives impressed investors and Tesco share price grew. In one year alone (2003/2004) Tesco's share price outperformed the market by 13% (BBC news). Experts credit his success at Tesco to his hands-on style leadership and marketing prowess. Although Sir Terry Leahy places focus on experience and low-key leadership his achievements have not gone unnoticed. This modest retail guru has received several accolades from different magazines and establishment. These include Most Outstanding Individual Retailer (1998-2003) and Retail Leader of the Year (2008) by Retail Week, Knighted for services to food retailing in the 2002 New Year Honours, named European Businessman of the Year by Fortune Magazine in 2004, recognized by the Wall Street Journal and CNBC as European Business Leader of the Year 2005, voted as Britain's Most Admired Leader 2005 and 2006 by Management Today, and a Guardian Unlimited Politics panel found him to be the most influential non-elected person in Britain in 2007. In addition to these he has received the honour of the Freedom of the City of Liverpool.

This accomplished CEO believed in the marketing dictate, " the customer must come first". A principle he had live by. As a testament to this and a legacy of his creativity and marketing talent, he successfully devised and implemented the Tesco Club Card loyalty program. He takes pride in knowing what customers are buying or want and regularly visits those owned by the competition. Sir Terry also believes in employee motivation; hence, introduced several staff welfare schemes such as the save as you earn scheme. One day a week, he walks the floor of one of Tesco's numerous

stores, to understand first hand what the different jobs entail, what consumers are buying and what people want.

However, Sir Terry's reign and business methods were not universally popular. Although the company's financial performance was outstanding, he was criticized on several counts, especially for the company's HR policies. The average wages paid by Tesco were among the lowest in the retailing industry in the UK. The salaries were paid on an hourly basis and the time taken off for tea breaks was not considered while calculating the total working hours. Tesco's staff were not given any sick pay for the first three days they were off work.

Tesco was further accused of disrupting the businesses of its smaller competitors and suppliers. In February 2004, the small supermarket chain Proudfoot complained Tesco through the Office of Fair Trading of "predator pricing" ([http://www. telegraph. co. uk](http://www.telegraph.co.uk)). In the same year, Tesco's £54 million acquisition of Adminstore was also referred to the Office of Fair Trading, with both supermarket and convenience store rivals urging the complaints authority to scrap the distinction between supermarkets and convenience stores. They accused Tesco of using its tremendous buying power to off cheaper prices than many traditional convenience stores. (Ref: profile: Tesco Chief Sir Terry Leahy by: Jorn Madslien (bbc news online business reporter) [http://news. bbc. co. uk/1/hi/business/3624645. stm](http://news.bbc.co.uk/1/hi/business/3624645.stm) Last Updated: Tuesday, 20 April, 2004, 07: 17 GMT 08: 17 UK

Below is a graphical representation of Sir Terry 13yrs reign at Tesco and provides comparison with the other major supermarkets in the UK.

EXAMINING THE IMPACT

To both internal and external stakeholders of Tesco, Sir Terry was exemplary. The fact that he had risen through the ranks from a shelf stacker to CEO, was significant for the Tesco Empire as it greatly helped towards projecting an image of the company as a responsible employer, one which recognises the hard work of employees and rewards them adequately. It is for this reason that he was much appraised as being a key source of inspiration for Tesco employees, with much emphasis placed on where his humble beginnings within the organisation.

Furthermore, Sir Terry's very own democratic leadership style greatly contributed to his popularity. His leadership success can further be attributed to four principles; clarity of purpose, consumer focused, delegation and simplicity. In his words; " we have been clear about what we wanted to achieve, we have listened to what our customers have told us, we have given responsibility to our managers and staff, and we have kept things simple". Thus on 8th June 2010 when he announced his resignation, the entire industry was in total awe and shock. In post comments, He maintained he had achieved his two main ambitions of making Tesco Britain's biggest supermarket chain and taking the business overseas. He aspired to develop a purpose and set of values that could sustain Tesco through its challenges as well as nurture future leaders. It took 14 years to see that strategy become a firm and complete reality. Conscientiousness

Therefore, there was much speculation on the ripple effects of his resignation, with most experts envisaging a hit on share prices – as investors react to this momentous change. Many feared for the impact it would on

staff morale and the succeeding regime as is common in transitions and times of uncertainty. The anxiety of his resignation was further exacerbated by the economic climate and the global economic downturn. The market was nervous because his resignation coincided with supermarkets facing the toughest trading environment for many years, as inflation which grocers benefit from, disappeared in the food business (e. g. rising prices had provided a crutch during the recession, consumer confidence is expected to be hit by the spending cuts anticipated in the emergency budget, rising cost of importing goods from the Far East and the expected rise in VAT will hit sales). The state of British retailing was compounded and equally worrisome by the wave other significant movements throughout the industry, with Dalton Phillips replacing Marc Bolland at Morrisons, Bolland moving to Marks & Spencer and Andy Clarke being newly appointed as CEO of Asda.

Many studies that had examined administrative transitions warned that change in administration can have significant impact on shareholders income as well as the company's operations if not managed properly. The impact this decision has on shareholders' wealth is as a result of what is referred to as the signalling effect. Markets interpretation of such occurrence can be good or bad. In some cases the change depicts a performance worse than previously believed whilst others are more concern with the successor's ability to improve performance. Furtado and Karan (1990) in their estimation of the signalling effect of CEO change over observed an abnormal downward variation of 25 -50 points on market value of the share prices of the companies engaged in such overhauling. Their finding came a year later after Bonnier and Bruner (1989) found a stronger positive return of about 2.

5% when they isolated the effect administrative change overs at distressed companies.

In the case of Tesco, share price on the London Stock Exchange dipped by 3% at the early hours of trading on the day Sir Terry Leahy announced his resignation. The table below shows the performance of Tesco's share price at the London Stock Exchange since the announcement. The daily performance highlights the market's reaction to the news for the entire week in which the announcement was declared. There was an immediate 10p drop in price by the close of trading from the previous day (see 07/06/10 and 08/06/10 figures). However, though it the recovered in the next two days, the recover lived as share prices generally declined as seen in the weekly and monthly closing figures.

TESCO PLC SHARE PRICE PERFORMANCE

Monthly Performance

Date

Open

High

Low

Close

Avg Vol

Adj Close

Jul-10

377. 4

407. 2

368. 4

390. 65

20, 540, 100

390. 65

Jun-10

409. 6

420. 9

379. 2

380. 05

26, 323, 400

380. 05

May-10

439. 4

441. 75

389. 4

411. 6

30, 442, 100

411. 6

Weekly Performance

Date

Open

High

Low

Close

Avg Vol

Adj Close

28-Jun-10

398. 3

400. 1

368. 4

381. 56

29, 833, 500

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381. 56

21-Jun-10

394

402. 75

379. 5

398. 65

30, 752, 100

398. 65

14-Jun-10

398

400. 15

387. 6

390. 75

29, 080, 900

390. 75

07-Jun-10

406. 2

413. 4

392. 25

394. 2

25, 255, 400

394. 2

01-Jun-10

409. 6

420. 9

402. 7

412. 25

16, 352, 700

412. 25

Daily Performance

Date

Open

High

Low

Close

Avg Vol

Adj Close

11-Jun-10

403. 55

403. 6

393. 4

394. 2

22, 979, 600

394. 2

10-Jun-10

401. 35

403

397. 1

401. 55

22, 754, 300

401. 55

09-Jun-10

400

402. 9

395

399. 41

29, 705, 700

399. 41

08-Jun-10

400

402. 75

392. 25

397. 4

39, 165, 300

397. 4

07-Jun-10

406. 2

413. 4

404. 1

407. 03

11, 672, 300

407. 03

Source: Yahoo Finance

The overall volatility in share prices cannot be limited to that executive decision but it fair to argue that the immediate market shock was reflected by the dip in share prices on the day of broadcast. It important to note at this point that increased volatility can alter a company's investment in the long run through an increased cost of capital, or by a reduction in the attractiveness of the company's shares as a medium for acquisitions or compensation. It can also affect the various agency relationships in the company; exacerbating conflicts between stockholders and bondholders, and hindering resolution of shareholder-management problems. (Hallman and Hartzell, 2003, Zhang and Nandini 2006)

It is apparent in Sir Terry Leahy's decision that he was mindful of these threats as he planned his succession strategy. The immediate appointment of Philip Clarke as his successor and the authority demonstrated by Sir Terry watered down market's suspicion that the change might have resulted by shareholders uneasiness about his strategy or ability to lead the company through this period of austerity in the UK economy. It was evident that he was not a scapegoat as Tesco financial performance is in a stronger shape coming through the recession.

The market's reaction to Tesco's internal state of operations would have been worse had he been forced to resign the post. The anxiety of the market often heightens and become intolerant to the change if a good leader is forced due to internal manipulations and corporate politics. Similarly, the market is sensitive to inside and outside successions. It is observed by Zhang and Nandini 2006 in cases of voluntary departures, volatility increases for outside than for inside succession. Hence, Tesco was able to swiftly recover from the initial dip in its share prices. So far the market reaction is sympathetic to Sir Terry's replacement. This is partly due to Tesco internal promotion culture. Philip Clarke, like his predecessor joined Tesco from grass root position and worked his way upward. He became part of the board in 1998 and has worked with Sir Terry since 1981. He currently heads the Asian and European operations, as well as IT department. However, Grinstein noted that the effects such a change is long-lived and can take up to two years after the event for the full impact to be realised.

Another test of Sir Terry's remarkable decision is the effect it will have on staff moral. For long Sir Terry democratic and low key demeanour has served as a major source of inspiration for many employees. Despite the sporadic staff upheaval such as in 2006 which led to the resignation of two senior executives (Dido Harding and John Browett) to resign and the accusation of underpaying employees Tesco remained an excellent employer with over twenty thousand employees world wide. His personality and charisma made him approachable and got along with staff. He built around him a staff of disciples and enthusiasts.

The concern for many now including the chairman of Tesco board who reckon that Sir Terry and given an unrivalled contribution to the progress of Tesco is can Philip Clarke adequately fill this void. Only time will tell.

However, as the new administration unfolds next year, the role of corporate governance remains crucial. The new chief executive will need every support he can get to implement his plans and aspirations. At the moment he assumes office on a firm foundation as staff morale is high and Tesco leads the market share. In the eyes of the market and the media the company's operation is solid and its prospects lucrative. He needs to maintain if not improve on this enthusiasm and home grown motivation.

Many employees are general loyal to the brand because of its internal recruitment policies of which the appointments of Sir Terry and Philip Clarke to the top job are testimonies. Tesco's philosophy is in line with the theories of two American researchers Likert at Michigan and Stodgill at Ohio (Arnold and Randall 2005) who argued that rather than selecting people with leadership traits, leaders could be trained in the form and style of their behaviours and relationship with their followers or subordinates. Hence, with the appointment of Philip Clarke came a management reshuffle which experts believed was the right thing to do. It kept the tension and expectations of aspirants to the position at bay and enlisted their support for the new administration.

CONCLUSION

Career related issues are contentious and can be very stressful for the individual and company. For many employees career progression is of overriding importance. Employees are considered the company's most

valued asset, as it is they who drive the business up or down. Thus administrative transition is crucial to the sustainability and image of the company. Therefore an excellent management of this change is essential to the future of the company.

Against this premise, the sudden resignation of Sir Terry Leahy from Tesco presented the company with a huge challenge. A challenge of such magnitude needed to be managed with accuracy and precision as the stakes are high. This cosmic shift of power had the potential to make or break the company. Crucial to the entire change process and impact mitigation is the healthy financial performance and prevalent corporate culture of Tesco. These two factors have helped managed any damage to its sales turnover and corporate value. CEO transitions are a rare occurrence in the retail business unlike sports and entertainment. Hence, when these changes occur there is usually a high level of expectation on the new leader. There is normally great optimism if the market perceives the replacement as an excellent job. Even though the credentials of the new are sterling, the improvements that are supposed to come with a change in the CEO are greatly influenced by corporate governance within the company. It can be concluded that Tescos management of the change process was exemplary.

Finally, away from the impacts on share price and staff motivation discussed, what seem to be omitted in the post mortem of Sir Terry Leahy decision is the psychological impact it had on staff and the market. The extent of this will be determined over time, however, the new administration must mobilise the commitment of managers to buy into ideologies of control and infuse motivation and support from employees.

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